

declared that the U.S. guidelines not only amount to an "infringement of our political sovereignty" but "represent a tightening of the American grip on our economy that threatens the attainment of our own economic objectives."

**Captive Markets.** In Economist Kierans' view, the grip is already too tight, and is largely responsible both for Canada's perennial balance-of-payments deficits and high manufacturing costs. Those costs are "almost entirely" due to the high price of materials and parts, largely imported by Canadian subsidiaries from their U.S. parent companies, a trade that ran \$1,063,000,000 in the U.S.'s favor in 1963. In fact, Kierans argued, U.S. subsidiaries in Canada often exist less to earn a profit on their own than as captive markets for their parent companies' parts and raw materials. As evidence, he cited a study of 21 U.S. overseas trading corporations showing that their total \$10.5 million investment, in Canada and elsewhere, yielded in 1959-60 only \$279,000 in repatriated dividends—but \$258 million in U.S. exports, and another \$18.7 million in management fees.

The result for Canada is not only a brake on the growth of Canadian manufacturing, but a massive contribution to the balance-of-payments deficit, which Kierans expects to grow "disastrously" worse under the guidelines. They "voluntarily" require that U.S. companies reduce their investments abroad, and cut back on imports while stepping up exports and repatriation of dividends. Kierans unhesitatingly estimated that "we can expect a deficit of \$2 billion on current account with the United States in 1966," mostly traceable to heavier importing by U.S. subsidiaries.

As a worrisome side effect, Kierans pointed out that U.S. subsidiaries with less investment from home but backed by parental guarantees will necessarily turn to the Canadian capital market. To keep enough capital available for the expansion needs of Canadian firms, the Bank of Canada would accordingly have to pump more money into the economy—another step toward inflation.

**Protectionist Sentiments.** To counter the guidelines, Kierans would "imitate the U.S." and demand detailed data on imports and prices from the 900 largest U.S. affiliates in Canada. "Immediately," said he, "this would expose the conflict of interest between a subsidiary's operations as part of a global unit and its responsibilities as a Canadian company." Since Ottawa has already assented to the guidelines, said Kierans blandly, then it is up to the provinces to do the job. But Kierans assigned a role to Ottawa, too: "It should be made crystal clear that putting pressure, through international corporations, on the economies of other nations, is likely to cause a wave of hostility toward those corporations and to revive the protectionist and nationalist sentiments that lie close to the surface of any community."

Rather surprisingly for a man who

welcomed the guidelines in the first place—because of their slowing effect on Canada's overheating economy—Finance Minister Mitchell Sharp sounds almost as if he agrees with Kierans. "I do not like these American guidelines," he told the Commons, "and I seriously doubt their wisdom." Where he takes issue with Kierans is that "I do not think there will be damage to the Canadian economy at this time"—since as compensation the U.S. continues to exempt Canada from its special tax on foreign borrowings. Canada also remains exempt from Washington's requirement that U.S. trusts, insurance companies and pension funds limit their foreign lending to an increase of only 5% this year. In any event, said Sharp, if the U.S. guidelines do turn out to pinch, then Canada is "quite prepared to issue its own guidelines" as Kierans proposed.

## JUSTICE

### The Spy Who Didn't Die

George Victor Spencer is a drab little man, the sort of bumbling, ineffectual anti-hero who, in the world of fictional spies, is threatening to take over from the James Bonds. Spencer is licensed to sort mail—or was until Justice Minister Lucien Cardin announced on CBC's *This Hour Has Seven Days* that "I am going to see to it that there is surveillance on this man for as long as he is in Canada" and the Vancouver Post Office fired him. In the Commons last week, Cardin's confidence that this closed the file on the case of the Postal Clerk Spy was rudely shaken.

When Ottawa expelled two Soviet Embassy aides last May, External gave an unusually detailed account of the hanky-panky they had been up to. The Russians had tried to enlist two Canadians and one, a New Canadian electronics engineer, had gone straight to the Mounties, then played along while Ottawa collected the goods on the

moonlighting diplomats. The second Canadian, identified by Prime Minister Pearson as a "very junior" civil servant, had been paid "thousands of dollars to gather information and documentation in Canada, to assist in the establishment of espionage activities."

**Passport Game.** Presumably for the training value, the Russians assigned their man to collect data, easily available to anyone, on the route of the trans-mountain pipeline system. More usefully, Ottawa noted, he also searched out the names of immigrants from Eastern Europe that could be used without their knowledge on forged passports for Red agents abroad. But the junior civil servant was gravely ill with cancer, and Ottawa obviously expected that a higher authority would soon relieve it of any decision whether to prosecute under the Official Secrets Act.

The affair might have rested there, but for the visit of a sad-faced man who called himself Wilson to the Vancouver Province's newsroom last October. He looked up Reporter Tom Hazlitt, who had written conjecturally about the unknown spy, and was apparently fishing for information on how hard Ottawa was pushing the case. At any rate, he asked enough questions to rouse suspicions.

Hazlitt enterprisingly checked hospitals for civil-service war veterans who had recently had operations, and early in November knocked on the door of Postal Clerk Victor Spencer's stucco bungalow in East End Vancouver. His friend "Wilson" opened the door, and after a few shaken moments, reluctantly admitted that he was indeed really Spencer and the civil servant Ottawa had been talking about.

Though Hazlitt at first did not publish Spencer's name, his story of the spy who had unexpectedly recovered was embarrassing enough for the Government. The 62-year-old Spencer, a native Vancouver Islander, kept his living room filled with leftist tracts. After his dis-

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VICTOR SPENCER

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JUSTICE'S CARDIN

Whose heads would swim?